

# TO SAVE OR NOT TO SAVE

## Planning for Your Child's Expensive College Education



by *Jim Beach*

Tom and Sheryl Carson have the usual ambitions for their daughter Katy (now five). College is one thing they're sure about. Which is why you might be surprised that even though they're both college graduates and make a comfortable living, they aren't planning to save a dollar for Katy's college education.

What?! Four years of in-state tuition, fees, room and board at a Florida university currently runs \$52,000 and four years at a private college averages \$100,000. In 13 years, who knows how much a college education will run, but if the cost of college continues to increase 6% a year, it will cost in the vicinity of \$120,000 for a state school and \$220,000 for a private college. What can Tom and Sheryl be thinking?!

Shortly after Katy's birth, their financial advisor at the time, a stockbroker, urged them to contribute to a 529 college investment plan and start a Coverdell education savings account – two on the short list of 'saving for college' plans. Those plans typically disqualify a family from financial aid on a dollar-for-dollar basis.

They balked when they realized that saving for college could actually penalize their daughter's chances of obtaining college financial aid (grants, subsidized loans, work study, scholarships and tuition reduction). At the same time, they saw that college savings would divert money that they should be saving for their own retirement.

"We looked at all the savings and pre-paid programs and found that everything designated for college would

disqualify Katy from receiving financial aid. All we were doing was guaranteeing we would pay every dollar for Katy's education," Sheryl said.

So they're saving money, but not money earmarked for college. If Katy doesn't get grants, loans and scholarships, they'll have the money to pay for college.

The Carsons are among a new breed of parents and grandparents questioning the common sense of saving for college.

"Under current tax and financial aid policies, saving for their children's college education can make parents worse off than if they never saved at all," says Bill Thomas, for 26 years a specialist in helping families determine the best way to pay for college. "After all, there are grants and loans for college, but none for retirement."

Not only is there the problem of losing college financial aid for each dollar saved, but experts like Thomas point out that couples in their 30s like the Carsons need to save \$2 million to \$3 million during their working years to maintain their standard of living in retirement. As people live longer and companies cut back on traditional retirement plans the chief priority for baby boomers and younger workers ought to be saving for themselves. Every dollar parents spend for college in their forties is two dollars less for retirement in their sixties.

Then there are families that find they're at an uncomfortable crossroad.

Alex and Terry Schmidt have always wanted their sons to attend college. Now Thomas is beginning his senior year in high school and Robbie is two years behind. They are concerned that a few setbacks along the way will keep their

sons from doing anything more than working while attending the local junior college – not what they had envisioned.

"We were in decent shape until 2000," Terry Schmidt said. "But over the next three years most of the money we had invested in stock mutual funds disappeared." That, and a lengthy layoff for Terry exhausted all the money earmarked for college for the boys and the Schmidts' retirement.

"Then, when we went online, the calculator showed we should be able to afford to pay \$17,000 a year toward college. Fat chance. Luckily, it wasn't too late." Terry said.

By employing some strategies, the Schmidts were able to lower their Expected Family Contribution, the amount they're expected to pay before they're eligible for federal financial aid. They were able to double their eligibility, potentially saving the couple up to \$50,000 over the next six years that their two sons attend college. Now, with a plan in place, they can send both to college on the \$500 they say they can contribute to the cause each month – and put the savings toward their retirement.

The point is, whether or not a family should save for college varies by family, but the answer for most families is 'yes, save money, but not in college-specific vehicles'. Doing so ensures they will pay the entire cost of college.



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